

# Section 1

# Introduction

**T**his report presents statistical estimates based on a stratified sample of approximately 104,000 unaudited returns selected from the nearly 5.8 million active corporate returns filed for Tax Year 2006 (defined to include accounting periods ending July 2006 through June 2007).

The report is divided into 6 sections. Section 1 provides statistics summarizing overall corporate activity for Tax Year 2006. Section 2 discusses changes in laws and regulations between this report and that for Tax Year 2005. Section 3 describes in detail the sample of income tax returns upon which the statistics are based, as well as the method of estimation used, the sampling variability of the data, and other limitations. Section 4 presents tables containing detailed statistics on assets, liabilities, receipts, deductions, net income, income tax liability, tax credits, and other financial data for 2006. This section also includes data on Form 1120S returns, unless specifically excluded by table. Form 1120S data are also shown separately toward the end of the section. These statistics are presented by industry, asset size, business receipts size, tax form type, accounting period ended, and other selected classifiers. Section 5 contains detailed explanations of the terms used in this report. In most instances, the explanations include definitions of terms used, as well as adjustments made in preparing the statistics and any limitations inherent in the data. Section 6 consists of the key corporation tax return forms.

The industry classification used in this report is based on the North American Industry Classification System (NAICS), which replaced the Standard Industrial Classification (SIC) system used in years prior to 1998. For this Statistics of Income report, the data are listed under 22 industrial sectors, 82 major industries, and 200 minor industries. Table 1 which begins on page 19, presents selected financial data for all minor industries.

The statistics in this publication present data primarily by major industries, sectors, return types, and specific categories. The statistics in the *2006 Corporation Source Book of Statistics of Income* differ from this report by providing data by minor industry and size of total assets for balance sheet, income statement, tax, and selected other items.

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## Overall Corporate Summary

Figure A presents corporation summary statistics for Tax Years 2005 and 2006 for number of returns, total assets, total receipts, net income (less deficit), income subject to tax, total income tax before credits, and total income tax after credits.

The number of active corporate tax returns filed for Tax Year 2006 increased by approximately 3.0 percent over the previous tax year. In Tax Year 2004, approximately 211,000 corporations filed their taxes electronically. This figure increased to 550,000 for Tax Year 2005 and has reached an all-time high of 875,000 for Tax Year 2006. This is an increase of 59 percent from 2005 and an increase of 315 percent in the last two years.

The **total assets** reported for active corporations increased approximately 10.0 percent from Tax Year 2005 to \$73.1 trillion. The largest net increase was in the Finance and Insurance sector, which increased from \$30.4 trillion to \$34.7 trillion, or 14.34 percent. The largest percent change gain of 18.84 percent was in the Educational Services sector, which also recorded the smallest increase in total assets of \$4.9 billion.

The **total receipts** from operations and investments increased from \$25.5 trillion to \$27.4 trillion, an increase of 7.4 percent. This increase was primarily reflected in business receipts which increased by 6.9 percent from \$21.8 trillion to \$23.3 trillion. Finance and Insurance, and Wholesale Trade accounted for 39.94 percent of the increase in total receipts and approximately 39.3 percent of the increase in business receipts. The Finance and Insurance sector experienced an increase of 13.5 percent in total receipts, from \$3.3 trillion to \$3.7 trillion; while business receipts increased from \$1.8 to \$1.9 trillion, an increase of approximately 5.3 percent.

Overall **total deductions** rose from \$23.6 trillion to \$25.5 trillion, an increase of 8.0 percent. Since 2004, the total amount of total deductions reported on active corporate returns has increased 17.87 percent. Cost of goods sold, a component of total deductions, grew from \$13.8 trillion to \$14.8 trillion in 2006, an increase of 7.1 percent.

Corporate **pre-tax profits**, also known as net income (less deficit), declined for the aggregate by -0.8 percent, from \$1.95 trillion to \$1.93 trillion (Figure B). When excluding pass-through entities from the total, pre-tax profits decreased from \$1.38 trillion to \$1.25 trillion or -9.6 percent.

## 2006 Corporation Returns- Introduction

**Income subject to tax** (the tax base), grew from \$1.20 trillion in 2005 to \$1.29 trillion in 2006, an increase of 7.5 percent. Total income tax before credits increased from \$419.2 billion to \$453.1 billion, an increase of 8.1 percent. Income tax increased 8.1 percent from Tax Year 2005 to 2006, an increase from \$416.3 billion to \$450.2 billion. Total income tax after credits, the amount paid to the U.S. Government, increased by \$41.0 billion from \$312.1 billion to \$353.1 billion.

From the 5.8 million active corporations for Tax Year 2006, approximately 3.9 million were pass-through entities. These pass-through entities include: regulated investment companies (RIC's), real estate investment trust (REIT's) and S corporations [1]. These entities pay little or no Federal income tax at the corporate level. Instead, they are required by law to pass any profits or losses to their shareholders, where they are taxed at the individual rate. Pretax profits of pass-through entities, mirrored the increase seen by all corporations with certain inclusions, rising 20.6 percent or \$117.0 billion during 2006 (Figure C).

**Figure A. --Returns of Active Corporations: Number of Returns, Total Assets, Total Receipts, Net Income (Less Deficit), Income Subject to Tax, Total Income Tax Before Credits, Total Income Tax After Credits, by Size of Total Assets, Tax Years 2005 and 2006**

(All figures are estimates based on samples--money amounts are in thousands of dollars and size of total assets are in whole dollars)

Year and size of total assets	Number of returns	Total assets	Total receipts	Net income (less deficit) [1]	Income subject to tax [2]	Total income tax before credits [3]	Total income tax after credits [4]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>2005</b>							
<b>Total.....</b>	<b>5,671,257</b>	<b>66,445,429,787</b>	<b>25,504,789,203</b>	<b>1,948,655,133</b>	<b>1,201,325,339</b>	<b>419,209,279</b>	<b>312,086,477</b>
Zero assets.....	774,622	-	445,036,031	33,390,285	19,086,398	5,779,882	5,094,162
\$1 under \$500,000.....	3,962,278	388,401,406	1,850,210,074	82,595,074	9,223,476	1,766,772	1,698,911
\$500,000 under \$1,000,000.....	370,562	260,923,167	642,832,416	22,774,074	4,473,747	1,077,862	1,043,493
\$1,000,000 under \$5,000,000.....	406,543	858,170,772	1,792,529,109	52,164,359	14,935,227	4,567,870	4,372,716
\$5,000,000 under \$10,000,000.....	66,278	463,000,889	971,980,526	25,702,212	9,367,290	3,164,228	3,060,316
\$10,000,000 under \$25,000,000.....	42,736	654,348,093	1,223,997,461	32,680,034	13,506,966	4,646,895	4,456,998
\$25,000,000 under \$50,000,000.....	15,808	555,194,699	812,566,876	24,835,726	13,459,430	4,678,404	4,366,840
\$50,000,000 under \$100,000,000.....	9,887	699,918,213	693,615,075	24,174,538	14,239,710	4,973,109	4,624,285
\$100,000,000 under \$250,000,000.....	9,316	1,490,548,405	1,012,405,328	48,660,813	31,250,096	10,983,815	9,935,667
\$250,000,000 under \$500,000,000.....	4,809	1,741,949,089	817,354,678	49,740,866	32,014,740	11,273,507	10,150,832
\$500,000,000 under \$2,500,000,000.....	6,012	7,372,297,893	3,063,700,726	279,799,010	171,339,765	60,459,095	50,364,959
\$2,500,000,000 or more.....	2,405	51,960,677,162	12,178,560,901	1,272,138,140	868,428,494	305,837,840	212,917,298
<b>2006</b>							
<b>Total.....</b>	<b>5,840,799</b>	<b>73,080,647,385</b>	<b>27,401,873,714</b>	<b>1,933,374,450</b>	<b>1,291,430,767</b>	<b>453,082,065</b>	<b>353,083,862</b>
Zero assets.....	979,169	-	535,489,918	28,763,225	17,500,365	5,653,680	5,399,348
\$1 under \$500,000.....	3,889,550	394,394,777	1,924,824,782	83,341,177	9,519,195	1,822,271	1,787,021
\$500,000 under \$1,000,000.....	383,908	269,742,294	685,039,197	20,869,790	4,659,036	1,141,582	1,122,588
\$1,000,000 under \$5,000,000.....	421,002	889,243,952	1,856,589,822	55,268,328	16,790,075	5,074,998	4,933,142
\$5,000,000 under \$10,000,000.....	71,407	501,204,266	1,042,833,967	30,774,319	10,019,374	3,395,659	3,285,438
\$10,000,000 under \$25,000,000.....	44,975	692,291,681	1,288,058,632	36,828,749	16,070,288	5,526,867	5,320,929
\$25,000,000 under \$50,000,000.....	16,765	585,293,602	873,746,730	24,390,040	14,181,105	4,894,547	4,661,237
\$50,000,000 under \$100,000,000.....	10,570	748,960,076	757,043,839	26,450,980	16,625,496	5,785,394	5,456,937
\$100,000,000 under \$250,000,000.....	9,543	1,531,023,998	1,052,705,705	51,043,598	32,622,746	11,422,225	10,431,308
\$250,000,000 under \$500,000,000.....	4,991	1,818,034,435	920,029,324	57,962,504	36,395,441	12,813,235	11,530,954
\$500,000,000 under \$2,500,000,000.....	6,351	7,449,429,552	3,312,672,451	260,417,155	181,766,728	63,814,598	54,366,849
\$2,500,000,000 or more.....	2,568	58,201,028,754	13,152,839,346	1,257,264,586	935,280,917	331,737,009	244,788,112

<sup>1</sup> Includes taxable income before net operating loss deduction and special deductions.

<sup>2</sup> Includes taxable income less net operating loss deduction and special deductions.

<sup>3</sup> Includes income tax, personal holding company tax, all recapture and other taxes, alternative minimum tax; excess net passive income tax (Form 1120S); branch tax (Form 1120-F); taxes from Parts II, III, and IV, and sections 856 & 857 (Form 1120-REIT); tax from Schedule J, line 3b (Form 1120-RIC); tax from page 1, line 5 (Form 1120-PC); and adjustments to income tax and total tax.

<sup>4</sup> Credits include foreign tax, U.S. possessions tax, telephone excise tax, credit for tax paid on unrealized capital gains, qualified electric vehicle, general business, prior-year minimum tax, qualified zone academy bond, clean renewable energy bond, and gulf bond credit.

Notes: Detail may not add to total because of rounding. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

## 2006 Corporation Returns- Introduction

**Figure B.-- Corporate Pretax Profits by North American Industry Classification System (NAICS) Sector,  
Tax Years 2005 and 2006**

[Money amounts are in thousands of dollars]

Industrial sector	Pre-tax Profits [1],[2]			
	2005	2006	Difference	Percentage Change
	(1)	(2)	(3)	(4)
<b>All industries.....</b>	<b>1,948,655,132</b>	<b>1,933,374,450</b>	<b>-15,280,682</b>	<b>-0.78%</b>
Agriculture, forestry, fishing, and hunting.....	4,723,729	2,927,432	-1,796,297	-38.03%
Mining.....	46,784,960	58,844,799	12,059,839	25.78%
Utilities.....	20,830,603	36,586,953	15,756,350	75.64%
Construction.....	74,356,808	73,894,825	-461,983	-0.62%
Manufacturing.....	680,058,202	481,099,337	-198,958,865	-29.26%
Wholesale and retail trade.....	214,851,252	227,775,140	12,923,888	6.02%
Wholesale trade.....	106,255,014	115,342,552	9,087,538	8.55%
Retail trade.....	108,612,236	112,444,753	3,832,517	3.53%
Wholesale and retail trade not allocable.....	-15,998	-12,165	3,833	23.96%
Transportation and warehousing.....	18,910,404	26,335,387	7,424,983	39.26%
Information.....	75,408,348	101,098,860	25,690,512	34.07%
Finance and insurance.....	500,563,173	631,745,689	131,182,516	26.21%
Real estate and rental and leasing.....	29,777,730	23,631,173	-6,146,557	-20.64%
Professional, scientific, and technical services.....	30,931,686	35,921,904	4,990,218	16.13%
Management of companies (holding companies).....	161,499,246	157,479,205	-4,020,041	-2.49%
Administrative and support, and waste management and remediation services.....	22,980,942	13,751,601	-9,229,341	-40.16%
Educational services.....	2,659,365	2,400,974	-258,391	-9.72%
Health care and social assistance.....	26,796,387	28,318,468	1,522,081	5.68%
Arts, entertainment, and recreation.....	4,117,704	4,538,143	420,439	10.21%
Accommodation and food services.....	27,759,730	20,536,940	-7,222,790	-26.02%
Other services.....	5,660,308	6,520,052	859,744	15.19%
Not allocable.....	-15,443	-32,432	-16,989	-110.01%

[1] Pretax profits are net income (less deficit) in the statistics.

[2] Excludes net long-term capital gain reduced by net short-term capital loss of regulated investment companies and portfolio income (including capital gains) for S corporations (qualifying corporations electing to be taxed through their shareholders).

NOTE: Detail may not add to totals because of rounding.

The remaining 2.0 million corporate returns reported total receipts of \$21.0 trillion, an increase of 6.1 percent from 2005 to 2006. Income subject to tax increased from \$1.20 trillion to \$1.29 trillion, a 7.5 percent increase; while total income tax after credits increased 13.2 percent from \$311.4 billion to \$352.3 billion. Excluding the pass-through entities [2], approximately 1.0 million corporations reported net income for Tax Year 2006.

The number of returns with total assets of \$2.5 billion or more represented only 0.04 percent of the total number of returns, but 79.6 percent of total assets. These 2,568 returns for 2006 accounted for 48.0 percent of the total receipts; 65.0 percent of net income (less deficit); 72.4 percent of income subject to tax; 73.2 percent of total income tax before credits; and 69.3 percent of total income tax after credits.

## 2006 Corporation Returns- Introduction

### Activities Covered

The estimates in this report encompass corporate business activities in the United States, as well as certain foreign activities as reported on returns of domestic corporations, and foreign corporations with U.S. business activities. The term domestic corporation refers to companies incorporated in the United States, but does not necessarily imply that all their activities are domestic. For instance, data for a U.S. corporation conducting business abroad through foreign subsidiaries may include dividends remitted from those subsidiaries and, to a certain extent, their undistributed earnings. The effect of foreign activity on the statistics varies by type of industry and by size of assets [3]. For foreign corporations (defined as those incorporated abroad) engaged in trade or business in the United States, only income that was considered effectively connected with the conduct of a trade or business in the United States was included in the statistics; any investment income from U.S. sources was excluded from the data. Most foreign corporations are concentrated in the "Finance and Insurance" and "Real Estate and Rental and Leasing" sectors. Other foreign corporations, incorporated abroad and not engaged in trade or business in the U.S., were liable for tax only on investment income from U.S. sources, and these returns were excluded from this report.

Section 6012 of the Internal Revenue Code requires that all corporations in existence at any time during the tax year file returns, regardless of whether they had income or not. This applied to active and inactive domestic corporations, unless they were expressly exempt from filing, as well as to active foreign corporations with insufficient taxes withheld at the source to satisfy their U.S. tax liability on income earned in the United States. However, inactive corporations have been excluded from these statistics. See Section 3 for more information on the sample.

In addition to legally defined corporations, the Internal Revenue Code recognized many types of businesses as corporations including: joint stock companies and unincorporated associations (such as business trusts, savings and loan associations, certain partnerships, mutual savings banks, and cooperative banks). These organizations possess characteristics typical of the corporate form, such as continuity of life, centralization of management apart from ownership, limited liability of owners, and transferability of shares of capital ownership.

### Time Period Employed

The estimates in this report are based on data from returns with accounting periods that coincided with the calendar year and returns with accounting periods that were for noncalendar years ending during the span of months July 2006 through June 2007. This span, in effect, defines the tax year in such a way that the noncalendar year accounting periods are centered at the calendar year ended in December.

There are 12 accounting periods covered in this report. Code section 441 specified that, in general, a taxpayer's accounting period ends on the last day of the month. There is a span of 23 months between the first-included accounting period, which began on August 1, 2005, and closed on July 31, 2006, and the end of the last-included accounting period, which began on July 1, 2006, and closed on June 30, 2007.

This report, therefore, shows income received or expenses incurred during any or all of the months in the 23-month span. For balance sheet items, the report shows a corporation's position only at the end of its accounting period. Corporations were required by Code section 441 to file returns for the accounting period customarily used in keeping their books.

**Figure C. -- Pretax profits and Pretax profits with certain inclusions for All Corporations, Regulated Investment Companies, and S Corporations, Tax Years 2005 and 2006**

[Money amounts are in thousands of dollars]

Item	Tax Year	All Corporations	Regulated Investment Companies	S Corporations
Pretax profits [1].....	2006	1,933,374,450	301,828,701	295,929,473
	2005	1,948,655,132	214,965,672	282,903,509
Pretax profits with certain inclusions [2].....	2006	2,319,547,408	597,728,823	386,202,310
	2005	2,210,067,320	398,238,803	361,042,566

[1] Pretax profits are net income (less deficit) in the statistics.

[2] The inclusions to pre-tax profits are: net long-term capital gain reduced by net short-term capital loss for regulated investment companies and investment, rental, and portfolio income (including capital gains) for S corporations. The amounts listed under "All Corporations" include both aforementioned items.

## 2006 Corporation Returns- Introduction

Figure D shows that calendar year returns made up 87.4 percent of the number of returns and 71.0 percent of net income (less deficit) for 2006. In addition, these returns accounted for 75.2 percent of the total assets, 75.3 percent of the total receipts, 74.5 percent of the income subject to tax, 76.2 percent of the total income tax before credits, and 75.9 percent of total income tax after credits. Corporations were usually required to file within two-and-one-half months after the close of the corporate accounting period. However, in accordance with

Code section 6081, most corporations could receive filing extensions of an additional 6 months. In addition to returns with accounting periods that spanned 12 months, the total number of active corporations includes returns with accounting periods of shorter duration. Such returns are referred to as part-year returns and were filed, for the most part, by continuing corporations changing their accounting periods, to include corporations in existence less than 12 months, merging corporations, and liquidating corporations.

**Figure D. --Returns of Active Corporations: Number of Returns, Total Assets, Total Receipts, Net Income (Less Deficit), Income Subject to Tax, Total Income Tax Before Credits, and Total Income Tax After Credits, by Ending Accounting Period for Tax Year 2006**

(All figures are estimates based on samples--money amounts are in thousands of dollars)

Ending Accounting Period [1]	Number of returns	Total assets	Total receipts	Net income (less deficit) [2]	Income subject to tax [3]	Total income tax before credits [4]	Total income tax after credit [5]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>Total.....</b>	<b>5,840,799</b>	<b>73,080,647,385</b>	<b>27,401,873,714</b>	<b>1,933,374,450</b>	<b>1,291,430,767</b>	<b>453,082,065</b>	<b>353,083,862</b>
December 2006.....	5,103,874	54,963,481,823	20,636,857,015	1,373,207,212	979,622,842	345,130,686	263,184,719
<b>Noncalendar Year Total.....</b>	<b>736,925</b>	<b>18,117,165,563</b>	<b>6,765,016,699</b>	<b>560,167,238</b>	<b>311,807,925</b>	<b>107,951,379</b>	<b>89,899,143</b>
July 2006.....	43,932	1,290,085,926	271,189,890	33,714,782	13,935,451	4,814,962	4,196,797
August 2006.....	47,458	1,356,065,564	349,684,228	47,933,916	16,210,157	5,640,624	4,449,455
September 2006.....	149,116	2,005,672,956	1,177,237,479	77,006,890	43,084,493	14,914,262	12,205,654
October 2006.....	64,818	2,479,032,253	512,782,379	66,602,808	17,658,745	6,120,576	4,647,313
November 2006.....	39,292	4,050,505,716	358,545,999	46,092,363	28,773,958	10,037,024	7,116,566
January 2007.....	41,142	991,214,534	1,122,180,766	71,396,450	61,172,320	21,360,719	19,913,826
February 2007.....	31,028	824,674,362	288,989,079	27,730,602	7,552,919	2,576,770	2,389,008
March 2007.....	96,085	2,501,169,531	1,103,001,462	67,739,057	41,061,973	13,798,735	12,663,694
April 2007.....	39,894	549,021,229	254,416,389	27,238,093	8,713,278	2,980,355	2,426,649
May 2007.....	42,948	709,137,332	367,773,238	30,256,066	19,375,195	6,346,433	5,139,068
June 2007.....	141,213	1,360,586,160	959,215,791	64,456,211	54,269,436	19,360,920	14,751,112

[1] Includes full and part-year returns.

[2] Includes taxable income before net operating loss deduction and special deductions.

[3] Includes taxable income less net operating loss deduction and special deductions.

[4] Includes income tax, personal holding company tax, all recapture and other taxes, alternative minimum tax, excessive net passive income tax (Form 1120S); branch tax (Form 1120-F); taxes from Parts II, III, IV, and sections 856 & 857 (Form 1120-REIT); tax from Schedule J, line 3b (Form 1120-RIC); tax from page 1, line 5 (Form 1120-PC); and adjustments to income tax and total tax.

[5] Credits include foreign tax, U.S. possessions tax, telephone excise tax, credit for tax paid on unrealized capital gains, qualified electric vehicle, general business, prior-year minimum tax, qualified zone academy bond, clean renewable energy bond and gulf bond credit.

Notes: Detail may not add to total because of rounding. See text for "Explanation of Terms" and "Description of the Sample and Limitations of the Data."

## Notes and References

[1] For more detailed information on S corporations, see Luttrell, Kelly, "S Corporation Returns, 2003," *Statistics of Income Bulletin*, Volume 25, Number 4, Spring 2006, pp. 91 - 165.

[2] Includes returns filed on Forms 1120, 1120-A, 1120-F, 1120-L and 1120-PC.

[3] For more detailed information, see Masters and Oh, "Controlled Foreign Corporations, 2002," *Statistics of Income Bulletin*, Volume 25, Number 4, Spring 2006, pp. 193-232.